

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-1 of 2-202

Flexible Spending Account Plan

Introduction

The Health Care and Dependent Day Care Flexible Spending Accounts allow you to pay for eligible health care and dependent day care expenses using **tax-free** dollars. This generally reduces your out-of-pocket cost for these services.

The Flexible Spending Account Program is administered by Aetna.

Summary of Flexible Spending Accounts (FSAs)

If you routinely have health care or dependent day care expenses, the FSA program will allow you to use a portion of your pre-tax compensation to pay for such expenses. The risks associated with this program are described below under “Risks Associated with FSA’s.”

Flexible spending accounts (FSAs) for health care and dependent day care expenses are allowed under Section 125 of the Internal Revenue Code (IRC). Section 125 allows you to authorize a specific pre-tax dollar amount to be “redirected” from your pay, without having federal (and, in most cases, state) income and Social Security taxes withheld. “Redirected” means the company reduces your taxable pay by the amount you authorize and places that amount in your spending account. The pre-tax dollars you contribute to your spending account may then be used to reimburse yourself for eligible health and dependent day care expenses, without tax consequences, for one plan year (January 1 through December 31).

Participation in the FSA program is strictly voluntary. You may contribute to one, both, or neither of these accounts.

Because the Health Care Spending Account and the Dependent Day Care Spending Account are separate accounts, you contribute to them separately. You may not transfer money between the accounts and you may not use money in one account to pay expenses related to the other account.

Maximum Contribution Amounts

The most you may contribute to your Health Care Spending Account is \$166.66 a month, for a maximum contribution of \$2,000 per calendar year (also the same as plan year). The most you can contribute to a Dependent Day Care Spending Account is \$416.66 a month (\$5,000 a year), or \$208.33 (\$2,500 a year) each if you and your spouse file separate income tax returns. The Internal Revenue Code places some additional limits on the amount you may contribute to your Dependent Day Care Spending Account as follows:

- Your total Dependent Day Care Spending Account deposits for the year can be no more than your income, or your spouse’s income, whichever is less.

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-2 of 2-202

- For any month your spouse is a full-time student or seriously disabled, account calculations may be made as if your spouse earns an income of \$200 per month if you have one qualifying dependent in your home, or \$400 per month if you have two or more qualifying dependents in your home.
- If your spouse has a similar before-tax spending account for day care expenses through his or her employer, the combined total the two of you may contribute to your Dependent Day Care Spending Accounts is \$5,000 per year.
- Divorced employees must generally have custody of their dependent children to contribute to a Dependent Day Care Spending Account. Please refer specific questions to your tax advisor.

If you decide to participate in the FSA program, the amount you elect to contribute will be taken in 24 equal payroll deductions during the calendar year. Please note that your contribution election may be subject to adjustment in order for the program as a whole to remain in compliance with the IRC and Treasury Regulations, especially those provisions that ensure the plan does not discriminate in favor of highly paid employees.

Full-time employees hired after the annual enrollment period, and employees who have a qualified family status change during the calendar year, may contribute a maximum of \$166.66 per month to a Health Care Spending Account, or \$416.66/\$208.33 per month (as applicable) to a Dependent Day Care Spending Account, for the remainder of that plan year.

Eligible Expenses for Health Care Spending Account

You can use your Health Care Spending Account to pay for medical, dental, vision and other health-related expenses (for you and/or your IRS dependents) that are not covered under the ***Benefits by Design*** plans (or your spouse's plans, if you are married). Generally, any medical or dental expense that is tax deductible, and results from services/supplies received by you and your dependents during the plan year while you are a plan participant, is eligible for reimbursement from your Health Care Spending Account.

Some examples of eligible expenses include:

- Your percentage of the cost of covered services (such as your 20% or 30% copayment amount).
- Your medical, dental, and vision plan deductibles.
- The out-of-pocket cost for eye exams, eyeglasses, and contact lenses.
- Your medical expenses that exceed the reasonable and customary (R&C) charges.
- The cost of hearing aids and hearing exams.

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-3 of 2-202

- Your \$10 or \$15 copayment for the mail order prescription drug program, and your 20% or 30% copayment for the retail prescription drug program.
- The cost of orthodontic services. Please note that reimbursement of orthodontic services is generally based on date of service, not on date of payment. When a lump sum payment is made for all or a portion of such services, a receipt of payment will be required in addition to a bill in support of the lump sum amount paid.
- The cost of chiropractic services.

For the complete list of all eligible, tax-deductible health care expenses, refer to IRC Section 213 (Health Care Expenses), IRS Publication 502 (Medical and Dental Expenses), or contact your personal tax advisor.

Eligible Expenses for Dependent Day Care Spending Account

You can use your Dependent Day Care Spending Account to pay day care expenses for your eligible dependents so you and your spouse can work. Eligible dependents include: (a) your children age 12 and under who live with you and whom you claim as dependents on your tax return, (b) older children who are mentally or physically incapable of self-care and depend on you for support, or (c) a disabled parent or spouse who lives with you and requires care while you work.

Generally, any dependent day care expense that is eligible for an income tax credit and is incurred during the plan year is eligible for reimbursement from your Dependent Day Care Account.

Expenses eligible for reimbursement include those for dependent day care in your home, in a neighbor's home (with less than six children in day care at the home), at a licensed day care facility, or by a relative who is not your dependent.

For a complete list of all eligible child and dependent day care expenses and eligible dependent day care providers, refer to IRC Section 129 (Child and Dependent Day Care Expenses), IRS Publication 503 (Dependent Day Care Expenses), or contact your personal tax advisor.

Filing Claims

General Information. To be reimbursed from your spending account(s) for eligible health care and dependent day care expenses, you must provide either a receipt, written statement, or an explanation of benefits.

You may submit a claim for reimbursement from your spending account(s) any time; however, reimbursements of less than \$50 will be held and processed the following month. At the end of the year, the \$50 minimum is waived. Claims are processed once each month.

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-4 of 2-202

Claim forms for your Health Care and Dependent Day Care Spending Accounts are available from the Benefits Office. Be sure to complete all parts of the claim form and attach all supporting information before you submit your claim. Send your completed claim form to:

Aetna
P.O. Box 578850
Oklahoma City, OK 73157-8850

The monthly cutoff for processing reimbursement claims is the last business day of the month. Reimbursement requests received by the last business day of the month will be processed on the 12th of the following month, and you should receive your reimbursement check by the 15th. If your reimbursement request is received **after** the last business day of the month, the processing of your check will be delayed a month.

The toll free number to use if you have questions about your reimbursement claim is:

1-877-801-0825.

Health Care Claims. Employees who participate in a health care FSA may file their reimbursement claims in two ways.

1. **Streamlined Automatic Submission**—With the streamlined submission process, employees make an election at the beginning of the plan year to have all their eligible health care expenses automatically applied to their Health Care FSA. This process then becomes effective for all medical claims that are submitted to Aetna during that plan year, including those that are filed directly by providers as well as those that are filed by the employee. (Please note that streamlined processing is **not** available for dental, vision, mental health, and/or prescription drug claims.) With this option, *no separate claim submission is needed for FSA reimbursement of qualified expenses that are initially filed with Aetna under the **Benefits by Design** medical plan.*

Please be aware that the streamlined submission process will not work for everyone. In particular, if your spouse works and has other medical coverage in addition to being covered as a dependent under your own medical plan coverage, you may not elect the streamlined automatic submission process for your health care FSA reimbursement claims.

2. **Separate Submission**—Employees who choose the separate submission process must first submit any covered medical expenses to Aetna for reimbursement under the medical plan. The resulting Explanation of Benefits form (or other proof of expenditure for expenses that are not reimbursed under the medical plan) is then submitted to Aetna using a separate FSA reimbursement claim form.

With a Health Care Spending Account, you will be reimbursed for the total amount of your claim, up to the annual maximum you choose to contribute less any previous reimbursements.

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-5 of 2-202

This applies even if you have not yet contributed enough money to your account to cover the amount of your claim.

Dependent Day Care Claims. Claims for reimbursement of dependent day care expenses may be sent directly to Aetna, together with copies of your receipts or a written statement showing the dates of service, the person or organization providing the service, the address of the provider, and the amount of the expense. If the day care is provided by an organization or center, you must include the Federal Taxpayer Identification number. If the day care is provided by an individual, you must include his/her Social Security number.

Reimbursement of dependent day care expenses is limited to the balance in your account at the time the claim is made. If you have not yet contributed enough to your Dependent Day Care Spending Account to cover your claim in full, you will be reimbursed only up to the balance in your account. Any amount above your current account balance will be paid as you contribute more money to your account.

Risk Associated With FSAs

While the Flexible Spending Account Program offers advantages, there are also risks associated with FSAs. If, by the end of the year, you do not incur the expenses you had anticipated and you have money left in your account, you will lose the unspent balance. Therefore, you should only redirect enough of your pay to cover the eligible expenses that you are sure you will have. As provided by federal law, all forfeited dollar amounts will be used by the company to offset the administrative costs for the program.

Annual Filing Deadline

You may submit claims for reimbursement of qualified health care and dependent day care expenses until March 31 of the following year. Reimbursement requests and any needed supplemental information must be received at AETNA by March 31 of the following year. For example, eligible expenses incurred in 1999 can be submitted for reimbursement until March 31, 2000. Eligible expenses incurred in 1998 or 2000 cannot be paid from your 1999 account.

Coordinating FSA Savings With Income Tax Deductions

Health Care Expenses. The Internal Revenue Code allows you to save taxes on out-of-pocket medical costs in two ways:

- You can pay all eligible health care expenses through your spending account(s) with before-tax dollars, up to the annual contribution limits
- You can take an itemized deduction for health care expenses on your federal income tax return to the extent that these expenses are greater than 7.5% of your adjusted gross income.

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-6 of 2-202

Please note that you **cannot** pay expenses through your spending accounts *and* take the itemized deduction for the *same expenses*. Although the method that creates the most savings for you depends on your personal situation, generally, it will be more advantageous to use your Health Care Spending Account to pay for qualified health care expenses. This is because **all** expenses can be reimbursed from your FSA account, not just those over 7.5% of your adjusted gross income. In addition, you won't have Social Security taxes withheld from money you contribute to a Health Care Spending Account.

Note: *This summary should not be read as legal or tax advice. Please consult your tax advisor for details regarding how participation in this program will affect your particular situation.*

Dependent Day Care Expenses. The IRS allows you to save tax dollars on dependent day care expenses as follows:

- You can pay all eligible dependent day care expenses through your FSA account with before-tax dollars (up to the annual contribution limit)
- You can take a tax credit on your federal income tax return for dependent day care expenses.

Federal Tax Credit. The maximum expenses allowable for tax credit purposes are \$2,400 for one qualifying dependent and \$4,800 for two or more dependents. However, only a percentage of these expenses may be claimed as a tax credit. The credit is between 20% and 30% of your dependent day care expenses and depends on your adjusted gross income, as shown below:

<u>Adjusted Gross Income</u>	<u>Tax Credit Percentage</u>
\$28,001 and above	20%
\$26,001–\$28,000	21%
\$24,001–\$26,000	22%
\$22,001–\$24,000	23%
\$20,001–\$22,000	24%
\$18,001–\$20,000	25%
\$16,001–\$18,000	26%
\$14,001–\$16,000	27%
\$12,001–\$14,000	28%
\$10,001–\$12,000	29%
\$10,000 or less	30%

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-7 of 2-202

Expenses reimbursed through your Dependent Day Care Spending Account reduce dollar-for-dollar the amount of expenses allowable in determining your federal tax credit. For example:

	<u>One Dependent</u>	<u>Two Dependents</u>
Maximum allowable expenses for tax credit	\$2,400	\$4,800
Dependent Day Care Account	<u>-\$2,000</u>	<u>-\$4,000</u>
Remaining allowable expenses for federal tax credit	\$400	\$800

Depending on your personal situation, one approach may give you a greater tax break than the other. As a general rule, if the total adjusted gross income for your household is more than \$24,000 or less than \$15,000 you may save taxes by using the Dependent Day Care Spending Account. However, if your household income is between \$15,000 and \$24,000, the tax credit may be more advantageous for you.

Because tax laws are complicated and change from time to time, it is a good idea to consult your tax advisor to find out which approach is best for you.

Family Status Changes

Once you have elected the before-tax dollar amount you want to contribute to your account(s) during the year, you cannot change that amount unless you have a **qualified family status change and the change is consistent with the qualified family status change**. A qualified family status change includes:

- Your marriage or divorce
- The birth or adoption of your child
- The death of your spouse or child
- Your dependent's ceasing to be eligible for coverage
- Your or your spouse's change in employment status
- A significant change in the health care coverage or cost (for you or your spouse) under your spouse's health care plan (unless your spouse participates in the ***Benefits by Design*** program)
- The finalization of a Qualified Medical Child Support Order.

Guide	BENEFIT PLANS	Identifier: GDE-10
Companywide	SECTION 2	Revision: 1
		Page: 2-8 of 2-202

If you have a qualified family status change, you may change your spending account contribution amount as long as the change is consistent with the change in your family status. To take advantage of this provision, you must notify the Benefits Office in writing within 30 days of the qualified family status change, and complete the necessary paperwork generally within 60 days.

When Your Participation Ends

Your participation in the FSA program is on a calendar year basis. If you wish to participate in this program, you must make a new enrollment each year during the annual enrollment period.

If your employment ends during the calendar year, your pre-tax contributions to your account(s) stop. You may only be reimbursed for those qualified expenses incurred through the last month of your coverage as a BBWI employee (unless you elect the after-tax contribution provision available with the COBRA continuation provision as described below). You will have 90 days from the end of the calendar year in which your employment ends to file a request for reimbursement from your account(s) for expenses incurred prior to the end of your employment. **You will forfeit any amounts remaining in your account after the deadline for filing claims.**

If you die, your contributions to your account(s) stop. However, your spouse or dependent may continue to submit claims for eligible expenses (incurred up to the last day of the month in which you die) until 90 days after the end of the plan year in which you participated in the account(s).

Continuing Your Contributions Through COBRA

If your participation in the spending accounts ends because your employment ends (other than for reasons of gross misconduct) or because your work hours are reduced, you may continue to make monthly contributions to your **Health Care Account** on an after-tax basis for up to 18 months.

If you elect to continue your health care coverage through COBRA, in certain circumstances your spouse or dependent child may also have the right to make monthly contributions to the Health Care Spending Account for up to 36 months. Contact the Benefits Office for additional information.

Effect on Social Security Benefits

Since you do not pay any Social Security taxes on the money you contribute to your spending account(s), you could reduce your future Social Security benefits by participating in this program. For most employees, this benefit reduction would be quite small and would be partially offset with current tax savings. Please consult your tax advisor to fully understand how participation in this program will affect your particular situation.